

File No.: PC89-0419C

Date: December 3, 2020
Filing Due Date: October 31, 2020
Review Deadline: December 7, 2020¹
Date Filed: October 23, 2020

Name of Utility: Inside Passage Electric Cooperative, Inc. Cert. No. 240

☒ Annual Update
☐ Fuel Cost Update
☒ Rate Change
☐ Other _____

☐ COPA Review
☐ Non-Fuel Cost Change
☐ kWh Sales Change

STAFF RECOMMENDATIONS: Approval of updated Permanent PCE amount (see attached memo)

PCE AMOUNT SUMMARY	Previously Approved	Staff Recommended
PCE AMOUNT (In Cents/kWh)	<u>Date Approved:</u> October 1, 2020	
All	24.91¢	24.72¢

Signed: Brenda Cox Brenda Cox Utility Financial Analyst

Commission decision re. this recommendation:

	Date (if different from 12/3/20)	I Concur	I Do Not Concur	I Will Write A Dissenting Statement *
Pickett	_____	<u>RMP</u>	_____	_____
McAlpine	_____	<u>SM</u> SM	_____	_____
Scott	_____	<u>AGS</u> AGS	_____	_____
Sullivan	_____	<u>DS</u> DS	_____	_____
Wilson	_____	<u>JW</u> JW	_____	_____

¹ Typically, there is no deadline for review of Power Cost Equalization (PCE) annual reports. However, a utility may request the review of an annual report (3 AAC 52.640(c)(2)) and the request triggers a 45-day review period (3 AAC 52.650(a)).

Memorandum

TO: Robert M. Pickett, Chairman DATE: December 3, 2020
Stephen McAlpine
Antony G. Scott
Daniel A. Sullivan
Janis Wilson

FROM: Brenda Cox RE: Inside Passage Electric Cooperative,
Inc.
Utility Financial Analyst PC89-0419C

Recommendations

1. Updated Power Cost Equalization (PCE) amounts should be effective for billings rendered on or after December 4, 2020.
2. Approval should be: ☒ Permanent ☐ Interim
3. Standard reminder language for notice specifications, efficiency, and rate changes should be included in the By Direction Letter to the utility.

Filing

On October 23, 2020, IPEC filed its PCE annual report, for the test year ending June 30, 2020 and a decrease in its rates. IPEC filed several supplements.² Staff's contact for this filing was Mr. Paul Jones, Attorney for IPEC³ and Ms. Roxanne Drake-Burkhart, Controller.

IPEC continues to file some of the same Schedules it filed when it was regulated⁴ and filed its Simplified Rate Filing (SRF). IPEC filed Exhibit 1, which consists of the following Schedules:

- Schedule 1 – Calculation of Proposed Rates
- Schedule 2 – PCE calculation based on Updated Rates and Non-Fuel Costs
- Schedule 3 – RCA Form 201
- Schedule 4 – Statement of Operations
- Schedule 5 – Calculation of PCE Non-Fuel Costs

² See Supplements filed November 10, 16, 17, and 20, 2020.

³ Paul Jones is with Kemppe, Huffman and Ellis.

⁴ U-18-013(4) *ORDER INFORMING UTILITY OF CONTINUING FILING OBLIGATIONS, REDESIGNATING COMMISSION PANEL, AND CLOSING DOCKET*, dated October 8, 2018.

- Schedule 5.1 – Waste Heat and Pole Attachment Revenue
- Schedule 6 – PCE Expense Adjustments
- Schedule 6.1 – Schedule of Long-Term Debt & Interest Adjustment
- Schedule 6.2 – Administrative and General Expense Adjustment
- Schedule 6.3 – Wage and Benefits Annualization Adjustment
- Schedule 6.3.1 – Employee Insurance Detail

IPEC also filed Exhibit 2, its RUS forms;⁵ Exhibit 3, its audited financial statements;⁶ Exhibit 4, its Schedule of Depreciation; Exhibit 5, its Electric Utility PCE Data Form; and Exhibit 6, its General Ledger Summary Trial Balance (GL) ending June 2020.⁷

IPEC's supplements included a General Ledger Trailing 12-Month Income Statement (Trailing GL) for the 12-months ending June 30, 2020⁸ and a revised Exhibit 5.⁹

Summary

After Staff's proposed adjustments, IPEC's total costs per kiloWatt-hour are 46.65¢/kWh. IPEC's reported fuel efficiency is 15.02 kWh/gallon and reported line loss is 8.94%. Staff's detailed analysis of this filing follows:

Analysis

Staff used the following in its analysis: IPEC's Exhibit 1, Exhibit 2, Exhibit 4, and revised Exhibit 5. Total reported non-fuel costs were \$4,980,486.¹⁰

Staff used the Trailing GL to verify the total Operating Margins and Patronage Capital or Margins,¹¹ Normalizing Adjustments,¹² and adjustments used in the calculation of PCE Non-Fuel Costs.¹³ Staff used the Trailing GL because it covered 12 months of the test year, June 1, 2019 through June 30, 2020, and the GL only covered 6 months of the test year, January 1, 2020 through June 30, 2020.

⁵ For the periods ending December 2019 and June 2020.

⁶ For the periods ending December 31, 2019 and 2018.

⁷ The General Ledger only covered January 2020 through June 2020.

⁸ Supplement filed November 10, 2020.

⁹ Supplement filed November 17, 2020.

¹⁰ See Schedule 3, Staff totaled lines 10 through 18, which equals \$4,980,486. Staff used the \$4,980,486 on Schedule BKC-1.

¹¹ Schedule 4.

¹² Schedule 6.

¹³ Schedule 5.

Columns 1 and 2 of Schedule 3 shows the two most recent twelve month-periods (the test years ended June 30, 2019, and 2020).¹⁴ IPEC also filed the RUS Form 7 the schedule necessary to reconcile the twelve-month reporting period shown on Schedule 3.¹⁵ Column 3 shows the variance between the two twelve-month periods; Column 4 shows the percentage change; Column 5 shows IPEC's requested normalizing adjustments; and Column 6 shows IPEC's normalized operating expenses.

1. Pro Forma Adjustments. IPEC's proposed normalizing adjustments are shown at Schedule 3, Column 5. Summary and narrative explanations are found at Schedules 6 through 6.3. IPEC proposes seven test period adjustments which are summarized as follows:¹⁶

Power Production Expense (Line 1): Increase of \$7,615 to normalize a 2.5% across-the-board wage increase effective January 2020 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Operations Expense (Line 5): Increase of \$1,691 to normalize a 2.5% across-the-board wage increase effective January 2020 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Maintenance Expense (Line 6): Increase of \$456 to normalize a 2.5% across-the-board wage increase effective January 2020 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Consumer Accounts Expense (Line 7): Increase of \$1,662 to normalize a 2.5% across-the-board wage increase effective January 2020 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see

¹⁴ Schedule 3 is found in Exhibit 1.

¹⁵ See Exhibit 2, RUS Form 7.

¹⁶ AS 42.45.110(a) specifies the costs used to calculate the amount of PCE for all electric utilities eligible under AS 42.45.100- 42.45.150 include all allowable costs, except return on equity, used by the Regulatory Commission of Alaska to determine the revenue requirement for electric utilities subject to rate regulation under AS 42.005.

Schedule 6.3).

Customer Service Expense (Line 8): Increase of \$270 to normalize a 2.5% across-the-board wage increase effective January 2020 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Admin. & General Expense (Line 10): Decrease of \$34,716, which consists of the following: removal of lobbying expenses (\$26,160); removal of donations, gifts, and community involvement expenses (\$1,242); removal of Alaska Air miles program expense (\$13,408); and removal of board and management expenses (\$1,291).¹⁷ It also includes an increase of \$7,385 to normalize a 2.5% across-the-board wage increase effective January 2020 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.2 and Schedule 6.3).

Interest Long Term Debt (Line 15): Increase of \$31,913, to adjust for the long-term debt and interest expense based on the test year ending June 30, 2020 (Schedule 6.1).

Staff Recommended Adjustments

After reviewing IPEC's pro forma adjustments, found at Schedule 6.2, Staff noted the adjustment to Admin & General Expense, included a \$1,042 decrease related to donations. This left a balance of \$1,042 under Other deductions on Schedule 3.¹⁸ Other deductions is the account donations are reported in. Staff recommends increasing Admin & General Expense by \$1,042 and decreasing Other Deductions by \$1,042. This adjustment has no effect on the total of the nonfuel costs. Therefore, Staff recommends **Adjustment 1 (Appendix 2)** to increase Admin & General Expenses by \$1,042 and **Adjustment 2 (Appendix 2)** to decrease Other Expenses by \$1,042.

PCE Calculation

IPEC filed Schedule 5, which shows the adjustments IPEC made to the non-fuel

¹⁷ Schedule 6.2 referenced account 940.41 which is not on the Trailing GL. Per Staff's request IPEC advised, in the November 16, 2020 Supplement, it should have been account 930.20.

¹⁸ See Schedule 3, line 18.

costs to determine non-fuel costs eligible in the calculation of the PCE amount. IPEC reduced the Total Adjusted Cost of Electric Service of \$4,989,378¹⁹ by the Fuel Expense in the amount of \$1,246,609 and Cost of Purchased Power in the amount of \$225,269.²⁰ IPEC also adjusted for costs equal to Waste Heat Revenue in the amount of \$48,248, and costs equal to Pole Attachment Revenue in the amount of \$12,936. Total non-fuel costs used in the PCE calculation are \$3,456,315 (see Schedule BKC-1).²¹

Rates

IPEC filed Schedule 1 showing its new rates which are as follows:

Rate Class	Old Amount	New Amount
Residential - Energy	\$0.4182	\$0.4121
Small Commercial	\$0.4487	\$0.4422
Large Power - Energy	\$0.3676	\$0.3623
Large Power - Demand	\$14.10	\$13.90

Fuel Costs

IPEC filed its most recent PCE fuel report on August 28, 2020, for the 4th quarter of 2020. IPEC uses the COPA methodology that it used when it was regulated. A weighted average price of \$1.8269/gallon and a COPA of \$0.0943/kWh were calculated in PC89-0419B,²² which is shown on **Appendix 2**.

¹⁹ Staff calculated non-fuel costs to equal \$4,989,377, IPEC used \$4,989,378, the difference is immaterial.

²⁰ Staff noted these costs were included in amounts reported on Schedule 3 and are recovered in IPECs COPA.

²¹ Staff notes these are the same adjustments IPEC used in its SRF filings in the past (TA212-240) and its last PCE annual report filing (PC89-0419). Staff notes IPEC's reported PCE Non-Fuel Expense equaled \$3,456,317 which is \$2.00 more than Staff calculated. This amount is immaterial.

²² See Letter Order L2000353, dated October 2, 2020.

Inside Passage Electric Cooperative, Inc.

POWER COST EQUALIZATION CALCULATION

FOR TEST PERIOD ENDING June 30, 2020

Annual Update

	PC89-0419B	PC89-0419C
	Prior Commission Approval	Utility Request Staff Recommended
A. Total kWh Generated	9,441,904	9,459,560
B. Total kWh Sold (Appendix 2)	9,168,948	9,285,855
C. Total Non-Fuel Costs (Appendix 2)	3,431,189	3,456,315
D. Non-Fuel Cost/kWh (C/B)	\$0.3742	\$0.3722
E. Total Fuel and Purchased Power Costs (Appendix 2)	0.0943	0.0943
F. Eligible Costs/kWh (D+E)	\$0.4685	\$0.4665
G. Eligible Cost/kWh (F) Less 20.63 cents/kWh	\$0.2622	\$0.2602
H. Lesser of (H) or 79.37 cents/kWh	\$0.2622	\$0.2602
I. Average Class Rates (Appendix 3)		
Residential	\$0.3282	\$0.3221
Small Community Facilities - All kWh	\$0.3707	\$0.3642
Large Community Facilities - All kWh	\$0.3656	\$0.3603
J. Lesser of: (H) x 95% or (I)		
Residential	\$0.2491	\$0.2472
Small Community Facilities - All kWh	\$0.2491	\$0.2472
Large Community Facilities - All kWh	\$0.2491	\$0.2472
K. Funding Level in Effect	100%	100%
Residential	\$0.2491	\$0.2472
Small Community Facilities - All kWh	\$0.2491	\$0.2472
Large Community Facilities - All kWh	\$0.2491	\$0.2472

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Appendix 1

Inside Passage Electric Cooperative, Inc.

SCHEDULE OF ELIGIBLE POWER COSTS, SALES, AND EFFICIENCY
FOR TEST PERIOD ENDING June 30, 2020
Annual Update

		PC89-0419B		PC89-0419C	
		Prior Commission Approval	Per Utility	Staff Adjustments	Staff Recommended
Non-Fuel Costs:					
A.	Operating Expenses (Acct 500-598)	3,195,532	3,122,704	0	3,122,704
B.	General & Administrative (Acct. 901-935)	1,270,897	1,231,375	Adj. #1 1,042	1,232,417
C.	Depreciation	409,405	434,963	0	434,963
D.	Interest Expense	202,402	194,728	0	194,728
E.	Other Expense: Tax/Donations	3,408	5,607	Adj. #2 (1,042)	4,565
F.	Other (Describe)				
	Fuel Expense	(1,361,508)	(1,246,609)	0	(1,246,609)
	Cost of Purchased Power	(211,880)	(225,269)	0	(225,269)
	Waste Heat Revenue	(64,131)	(48,248)	0	(48,248)
	Pole Attachment Revenue	(12,936)	(12,936)	0	(12,936)
G.	Total Non-Fuel Costs	\$3,431,189	\$3,456,315	\$0	\$3,456,315
H.	Total kWh Sold in Test Year July 2019 through June 2020	9,168,948	9,285,855		9,285,855
I.	Non-Fuel Cost/kWh (G/H)	\$0.3742	\$0.3722		\$0.3722
COPA Fuel Costs:					
J.	Gallons Consumed (estimated) July-Sept 2020)	\$148,302	148,302		148,302
K.	Price of Fuel (per gal) (July - Sept. 2020)	\$1.8269	\$1.8269		\$1.8269
L.	Purchased Power (July - Sept. 2020)	\$71,107	\$71,107		\$71,107
M.	Balancing Account estimated to 6/30/20	(\$124,364)	(\$124,364)		(\$124,364)
N.	Total Cost of Fuel (J*K)+L+M	217,676	217,676		217,676
O.	Estimated kWh Sales in July - Sept. 2020	2,308,927	2,308,927		2,308,927
P.	Fuel Costs/kWh - COPA (N/O)	\$0.0943	\$0.0943		\$0.0943
	Less Base Cost of Power (PC89-0417B)	\$0.0000	\$0.0000		\$0.0000
Q.	Fuel Costs/kWh - COPA	\$0.0943	\$0.0943		\$0.0943
R.	kWh Sales	9,168,948	9,285,855		9,285,855
S.	kWh Generated with Diesel	7,641,234	7,430,174		7,430,174
	kWh Generated with Hydro	1,800,670	2,029,386		2,029,386
	Total kWh Generated	9,441,904	9,459,560		9,459,560
T.	Purchased Power	988,740	1,062,540		1,062,540
U.	Fuel Consumption	507,505	494,669		494,669
V.	kWh Station Service	299,887	296,008		296,008
W.	Efficiency Standard	15.06	15.02		15.02
	(kWhs generated per gallons consumed)				
X.	Line Loss 12%	9.22%	8.94%		8.94%
	(kWh generated or purchased -(kWh sales + Station Service))/kWh generated or purchased				

Inside Passage Electric Cooperative, Inc.

CALCULATION OF AVERAGE CLASS RATE PER kWh

Surcharge: 0.0943

Rate Schedule: **Residential**

Customer Charge (CC): 11

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)+CC	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2063
0 to 500	0.4121	0.0943	0.5064	264.2000	0.5284	0.3221
to						
to						
to						
Max 500			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2063
0 to 500						
to						
to						
to						
Max 500			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2063
0 to 500						
to						
to						
to						
Max 500			Total			

Inside Passage Electric Cooperative, Inc.

CALCULATION OF COMMUNITY FACILITY AVERAGE RATE PER kWh

Rate Schedule: **Small Comm. Fac.** Customer Charge (CC): 17

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/500)	(6) Average Rate(\$/kWh)- \$ 0.2063
0 to ∞	0.4422	0.0943	0.5705	0.3642

Rate Schedule: **Large Comm. Fac.** Customer Charge: 55

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/500)	(6) Average Rate(\$/kWh)- \$ 0.2063
0 to ∞	0.3623	0.0943	0.5666	0.3603

Rate Schedule:

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(6) Average Rate(\$/kWh)- \$ 0.2063
0 to				
to				
to				

PCE Annual Report

Utility Name:

INSIDE PASSAGE ELECTRIC COOPERATIVE, INC.

Period Ending:

06/30/20

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LINE	ACCOUNT NUMBER(S)	ACCOUNT TITLE	ACTUAL CURRENT 12-MONTH	Normalizing Adjustments	Per Utility	Staff Adjustments	Staff Recommended
			06/30/20 (2)	(5)	(2+5)		
2	500 - 554	Power Production	2,672,377	7,615	2,679,992		2,679,992
3	555 - 557	Purchased Power	225,269		225,269		225,269
4	560 - 573	Transmission	0		0		0
5	580 - 589	Distrib-Operations	160,258	1,691	161,949		161,949
6	590 - 598	-Maintenance	55,038	456	55,494		55,494
7	901 - 905	Consumer Accts.	193,419	1,662	195,081		195,081
8	907 - 910	Customer Service	8,677	270	8,947		8,947
9	911 - 916	Sales	28,321		28,321	Adj. #1	28,321
10	920 - 935	Admin & General	1,033,742	(34,716)	999,026	1,042	1,000,068
11	Total O&M	(2 THROUGH 10)	4,377,101	(23,022)	4,354,079		4,355,121
12	403 - 407	Depreciation & Amortization	434,963		434,963		434,963
13	408.1	Property Tax	4,584		4,584		4,584
14	408.2 - 408.4	Other Tax	(19)		(19)		(19)
15	427	Interest L-T Debt	162,815	31,913	194,728		194,728
16	427.3	IDC	0		0		0
17	430	Other Interest	0		0	Adj. #2	0
18	426	Other Deductions-donations	1,042	0	1,042	(1,042)	0
19			4,980,486	8,891	4,989,377		4,989,377
20	Less Fuel Expense (Schedule 5)				(1,246,609)		(1,246,609)
21	Less Cost of Purchased Power (Schedule 5)				(225,269)		(225,269)
22	Less Costs Equal to Waste Heat Revenue (Schedule 5)				(48,248)		(48,248)
23	Less Costs Equal to Pole Attachment Revenue (Schedule 5)				(12,936)		(12,936)
24	Total Non-Fuel Costs				3,456,315	0	3,456,315

Signature: 

Email: bob.pickett@alaska.gov

Signature: 
Stephen McAlpine (Dec 2, 2020 17:21 AKST)

Email: stephen.mcalpine@alaska.gov

Signature: 
Dan Sullivan (Dec 3, 2020 09:29 AKST)

Email: daniel.sullivan@alaska.gov

Signature: 

Email: antony.scott@alaska.gov

Signature: 

Email: janis.wilson@alaska.gov

PC89-0419C
Schedule BKC-1